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OVERSIGHT, NUTRITION AND FORESTRY

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Testimony by Gordon Hoover
Representing dairy producers in the Northeast

Chairman Gutknecht and members of the Subcommittee, thank you for inviting me to speak on behalf of Northeast dairy producers about the state of the U.S. dairy industry. While I am speaking primarily as a Northeast dairy farmer, my remarks also reflect the fact that I serve on the corporate board of Land O'Lakes, a farmer-owned cooperative that markets milk for 6,000 dairy farmers nationwide. My insight into the dairy industry, its infrastructure and the trends facing the industry has been greatly enhanced by my involvement in Land O'Lakes and other dairy producer organizations.

My name is Gordon Hoover, and I am a dairy producer from Gap, Pennsylvania, just outside of Lancaster and in the heart of Amish country. I milk 120 cows on my farm, which has been in my family for three generations. My farm is slightly larger than the average herd size in Pennsylvania, which is right around 75 cows, and my milk is typically sold to Hershey Foods to use as an ingredient in chocolate. As an extension of my dairy business, I serve in several leadership roles, including Land O'Lakes Dairy Committee chair, National Milk Producers Federation board member and as a member of the Pennsylvania Dairy Stakeholders and Professional Dairy Managers of Pennsylvania.

Through my involvement in these organizations, I have seen the mood of my fellow dairy farmers change drastically in the past several years as we've learned to deal with dramatic milk price swings and market volatility. Eighteen months ago, the price I received for my milk dropped 34 percent, and it has stayed there ever since. In Pennsylvania, the average cost of production for the first three months of 2003 was $13.15 per hundredweight, and last month's on-farm milk price was $12.50 per hundredweight. That means that the average price producers receive for our milk isn't even covering our costs to produce it.

Right now, there's a lot of depression and apathy among dairy farmers. My neighbors have maxed out their lines of credit and taken off-farm employment just to make ends meet. And, that's with the supplemental payments we receive through the USDA's Milk Income Loss Contracts. With conditions as drastic as they are, it's more important now than ever that producers and the dairy industry work together.

As a dairy farmer, I believe in the cooperative spirit, working together with other producers, through industry organizations, within our cooperatives like

Land O'Lakes, and with government officials, to continually improve our industry and increase dairy farmer profitability. That's why I've dedicated part of my time and efforts to participating in the industry organizations I listed earlier. It's through organizations like these that dairy producers shape and influence our future and our viability in the industry.

In the Northeast, the milk supply is stagnant to decreasing. with According to Sparks Commodities Companies, reporting we experienced a 2 percent decline in 2001, followed by a 1.5 percent increase in 2002 and a projected 1 percent decrease this year. My concern as a dairy farmer is this: "Where will the milk come from in the future to meet industry needs in our region?"

As producers continue to exit the business or relocate out of the region due to declining profitability and other issues, fluid milk customers and other Northeast processors who make cheese, butter, ice cream and chocolate lose their milk supply. These customers need a stable supply for their processing facilities or they will relocate to other more viable dairy regions in this country or elsewhere in the world.

I believe producers need to work together, as individuals and through our cooperatives, to assure an orderly allocation of milk to our customers in a way that optimizes the value of the milk we produce. If we don't, the dairy infrastructure in the Northeast will deteriorate as it has in other parts of the country, and those producers who haven't exited the business will have to do so because they will not have access to supplies or market outlets.

The government's involvement in shaping dairy policy should attempt to ensure that U.S. dairy farmers receive accurate and realistic signals from the marketplace. Programs like the dairy price support program and the Milk Income Loss Contracts have been beneficial in helping producers maintain profitability and limit their vulnerability to milk price volatility. However, it's unrealistic to expect that we can sustain prices at a level that encourages surplus milk production. What we want to prevent is losing a lot of good, solid dairy producers due to the low milk prices, while we wait for the economy to turn around and demand to rebound. If we do lose a substantial number of producers during this milk price slump, we could face a shortage in milk supply should demand rebound a year from now.

That's why programs like USDA's Dairy Options Pilot Program are valuable in educating producers on ways to protect their operations in times when the milk price responds to an excess supply or drops in demand, such as the situation we're in now. Since the 1990s, producers have made progress in learning how to use the futures markets as a risk management tool. Many cooperatives are being more creative in offering price protection opportunities. For instance, Land O'Lakes offers fixed price contracts to members, regardless of their size, who want to protect their incomes.

Personally, I have to do a better job at taking advantage of these opportunities. Although I participated in the Dairy Options Pilot Program, I haven't used forward contracting since then because I felt the low debt structure of my operation enabled me to weather market volatility on my own. However, long periods of low milk prices, like the one producers currently face, are just too damaging not to think about risk management options.

Like many other producers, I still need to learn more about these programs, and I need guidance on exercising my risk management options appropriately. Providing expertise and training to producers on risk management would be an excellent way for land-grant universities and state government, as well as the USDA, to get involved in protecting the long-term viability of our nation's dairy farmers.

Thirty-one cooperatives representing U.S. dairy farmers developed another avenue for potentially bolstering producer incomes – the proposed establishment of a voluntary, farmer-funded and industry-led program to bring supply and demand back in balance. The program, called CWT or Cooperatives Working Together, was developed by National Milk Producers Federation (NMPF) to respond to a crisis situation caused by the low milk prices.

There's a lot of skepticism in the industry about the program. But I believe it can work because we (the NMPF board and staff) put a lot of time and effort into making sure it will work. If this program fails, then the market will exercise its discipline eventually. Unfortunately, until then, many producers will be forced out of business by low milk prices. If the program does succeed, the dairy industry will have a model in place that we can quickly implement in future situations when an imbalance in supply and demand is driving low milk prices for farmers.

Another key factor in increasing milk prices must include finding ways to increase demand for milk and dairy products. I support the producer-funded efforts of the National Dairy Board, Dairy Management, Inc., and the various state and regional milk promotion organizations. This is another way that we can work together for mutual benefit, by promoting our products and conducting research on the benefits of milk and dairy products. In this regard, I would urge USDA to implement the provision included in the farm bill that requires importers of dairy products to pay their fair share for dairy promotion. The dairy promotion programs tend to increase demand for all dairy products, including imports. But, until now, importers have been free-riders of our promotion efforts. It's time for them to pay their fair share, too.

With 120 cows in my herd, I am one of the producers who benefits from the Milk Income Loss Contract payments that were authorized in the 2002 Farm Bill. These payments do help in periods of low milk prices. However, many good, solid producers are frustrated by some of the limitations and guidelines established by the MILC program.

The program has done what it was intended to do. Many small or medium-sized farmers would have already been out of the business if it were not for the MILC payments. Unfortunately, producers who milk more than 200 cows feel abandoned and left to bear the brunt of low milk prices without any significant assistance. Looking forward, I am concerned that, if the industry fails to take effective voluntary action to balance supply and demand now, regardless of the MILC payments, we will undermine the willingness of Congress to provide this kind of support for producers in the future.

The MILC program has proven to be an important safety net for many dairy farmers. However, I feel that the dairy price support program is the bedrock of the federal dairy program. When we went through the last farm bill debate, this was something that all dairy farmers could agree on. Having said that, implementation of the program does need some refinements. NMPF recently did an internal survey to determine the actual cost of meeting CCC requirements for selling products to the government. They found the CCC needs to increase the purchase price of dairy products, particularly cheese, to assure that the program supports producer prices at no less than $9.90 per hundredweight.

USDA's decisions on when to implement butter / powder tilts also cause frustrations among producers. It sometimes appears that the department is exercising its authority to adjust the tilt at times when the action will have a detrimental impact on producer incomes. This seems contrary to the program's purpose, which is to establish a safety net of $9.90 for producer milk prices.

Besides dairy price support programs, the other major element of dairy policy is the Federal Milk Marketing Order system. To the extent that the Committee chooses to address marketing order issues, I strongly recommend that you bear in mind a simple statement of principle for the system: "The federal orders exist to assure orderly marketing of milk and equitable sharing of market revenues among those producers who serve the market." It seems the most troublesome issues arise when an organization or group of producers either chooses to take advantage of an order's provisions in order to avoid equitable sharing of market revenues or seeks to exclude themselves from the order to gain a competitive advantage over other producers in the order.

Within Federal Order 1, or the Northeast, producers face similar challenges as dairy farmers in other parts of the country – escalating input costs, increasingly stringent environmental restrictions and limited access to a dependable labor force. Specifically, in Pennsylvania, producers deal with continuing pressures from urban sprawl, increasing land values and corresponding property taxes, the extensive permitting process required to expand or upgrade facilities, and discrepancies in the over-order premium structure. Organizations like the Pennsylvania Dairy Stakeholders and Pennsylvania Farm Bureau are working with state legislators and the Pennsylvania Department of Agriculture to address many of these issues in order to maintain a viable dairy industry in the state.

The discrepancies in the over-order premium structure are another issue. Over the past five years, Land O'Lakes dairy producers in the state and others have worked with the Pennsylvania Milk Marketing Board (PMMB) and state legislators to adopt a pooling regulation that would pool the Class I Over-Order Premium among all farmers in the state. The reason we feel it should be distributed among all producers is because the PMMB established the regulation to help all Pennsylvania dairy farmers better manage local market conditions, especially in times of economic hardship, and receive greater value from their milk. This is similar to the principle behind the Northeast compact. Unfortunately, under the current distribution guidelines, less than one-third of the state's dairy farmers receive nearly 85 percent of the premium proceeds. The PMMB continues to delay the outcome of that regulation, preventing the majority of Pennsylvania's dairy producers from receiving their fair share from the premium.

I do want to commend the federal government on its implementation of the Dairy Export Incentive Program. DEIP continues to be one of the most effective ways to combat foreign subsidies that distort the world market for dairy products. It provides an opportunity for the U.S. dairy industry to target export markets for our products. As a producer who is concerned about how we overcome foreign subsidies and build viable export markets for dairy, I strongly support using DEIP to the fullest extent allowed under WTO trade rules, and I urge full funding of DEIP by Congress.

It is my belief that the U.S. goal in negotiating new trade agreements should be to achieve a dramatic reduction in export subsidies on dairy products and to eliminate trade barriers. If our negotiators achieve this goal, then U.S. dairy farmers will have an opportunity to develop new markets for their products at profitable prices. This is the only way that dairy farmers in this country can afford to grant imports any greater market access to the United States.

As a dairy farmer, I oppose negotiating a free trade agreement with Australia or New Zealand for the simple reason that such an agreement would be a one-way street for dairy. Our industry joined the rest of the agriculture community in supporting the Bush Administration's quest for Trade Promotion Authority. It is very disappointing that the Administration is choosing to use that authority to pursue bilateral agreements that would hurt the dairy industry. Instead, the Administration should focus its efforts on negotiating a comprehensive, multilateral agreement in the WTO. In that forum, dairy farmers have a reasonable hope of gaining new markets.

That said, I support the passage of H.R. 1160, which would establish new tariffs on Milk Protein Concentrate imports. This bill would impose a new tariff rate quota on MPC imports and close the MPC loophole. Getting this legislation passed is one part of a three-pronged strategy to address MPC. The other two prongs include getting U.S. Customs to adopt a standard definition of MPC and establishing a protocol to stimulate a domestic MPC industry. Through this strategy, we hope to prevent MPC from further displacing domestic milk supplies.

I want to personally thank the 100+ Representatives who have agreed to sponsor H.R. 1160. Dairy farmers throughout the country appreciate your support. For those of you who haven't agreed to sponsor the bill, or who haven't decided to vote for the bill yet, I encourage you to extend your support for this important piece of legislation benefiting U.S. dairy farmers.

I also encourage the United States Department of Agriculture to respond more quickly when imports coming to our country exceed safeguard levels. Under the current trade rules, the United States provides substantial access to our markets for imported dairy products. Those same rules include safeguards to assure that imports do not have an excessive impact on the U.S. dairy industry. In recent years, USDA has not acted quickly enough to trigger those safeguards when imports exceed the maximum.

The same rules that require the U.S. to allow imports give us the right to cut off imports if they exceed the levels specified by the WTO. The Administration needs to demonstrate its support for U.S. dairy farmers by exercising those safeguards promptly when the trigger levels are exceeded.

Again, I thank you for the opportunity to testify before your subcommittee today. From my testimony, you may think there's a lot of doom and gloom out there in the dairy industry right now. But, from my perspective, there's a lot of hope, too. Dairy farmers are eternal optimists. We love what we do, despite the hardships we face. I truly believe by working together as producers, within our cooperatives, with industry and non-industry organizations, and with legislators like you, we can build a stronger, more viable future for all U.S. dairy producers.

We do need your help and support, though. As I said earlier, programs like the Dairy Price Support Program and the Dairy Export Incentive Program are working to benefit producers, and we need you to give them your continued support. We also need you to continue to keep the farmer's best interest in mind when developing legislation that affects dairy trade obligations, environmental restrictions and income subsidies. Our goal as dairy farmers, and as an industry, is to create a marketplace where supply and demand work together to generate reasonable and realistic profits for producers, without substantial dependence on government subsidies. Anything you can do to help us build and sustain that marketplace is greatly appreciated. Thank you.